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ABSTRACT

The purpose of this paper is to explore funding issues related to charter districts. It begins with definitions of charter school and charter district. It continues with a brief discussion of public-school finance and some of the policy issues associated with distributing state funds to school districts, allowing school districts to generate revenue from local tax sources and controlling how revenues may be used. This section is followed by a review of what is known about the funding of charter schools, including the procedures used to allocate state and local support to them, the level of financial support they receive, and the issues that have been raised about the way they are financially supported. In the next section, a summary is provided of interviews conducted with several people identified as having knowledge of and interest in charter-district funding. Finally, a series of recommendations are made about funding charter districts, from both a state and a local perspective. The paper concludes that states that support the concept of charter schools and charter districts need to modify their school-funding systems to accommodate these new institutions seamlessly. (Contains 42 endnotes, some of which are references.) (Author/WFA)

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How Can We Fund Charter Districts? The Nuts & Bolts of Charter Districts Series.

John Augenblick
Jennifer Sharp

May 2003

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Education Commission States

The Nuts & Bolts of Charter Districts

How Can We Fund Charter Districts?

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Introduction

When charter schools first emerged as an alternative way to provide education services within the traditional public school milieu, how they would be funded was not the most important policy issue on the minds of state and local policymakers. Funding mechanisms were initially developed to ensure charter schools received public support, with funding levels varying somewhat across the states that have embraced charter schools.

Over time, a debate of sorts has developed about at least two aspects of charter school funding:

- Do charter schools receive appropriate support – both in relation to their needs and relative to the support provided to non-charter public schools?
- Do the entities that authorize charter schools incur costs that should be reimbursed by states?

Other more-specific fiscal issues have emerged concerning such things as start-up costs, capital expenses, the funding of special education and the purchase of services from school districts. Nevertheless, the number of charter schools continues to grow, as does their enrollment, despite perceptions by charter schools and school districts that actual funding levels underestimate the real costs to both schools and districts associated with the operation of charter schools.

Concerns about the funding of individual charter schools are also applicable to charter districts – school districts that oversee multiple schools operating autonomously. These concerns may need to be approached differently depending on the nature of the charter district – whether all schools in the charter district are charter schools, and whether the charter district is a conversion of an existing school district or a newly created district that oversees schools that are dispersed geographically.

It is possible that some of the fiscal problems associated with individual charter schools in a single school district would be alleviated if all schools in the district were charter schools. Even if this were to prove true, a charter district still faces several fiscal issues that need to be resolved not only for it to obtain state and federal funding, but also for the individual schools within it to receive appropriate amounts of state, local and federal support. Funding issues might also arise in making the transition from a standard school district – with no charter schools or only one or two charter schools and several non-charter schools – to a charter district. The one thing that is certain is that it is difficult to speculate about charter districts in general – at least in terms of finance issues – since there are fundamental differences among states in the procedures used to allocate state support to school districts, traditional public schools and charter schools.

This paper's purpose is to explore funding issues related to charter districts. It begins with a brief discussion of public school finance and some of the policy issues associated with distributing state funds to school districts, allowing school districts to generate revenue from local tax sources and controlling how revenues may be used. This section is followed by a review of what is known about the funding of charter schools, including the procedures used to allocate state and local support to them, the level of financial support they receive and the issues that have been raised about the way they are financially supported. In the next-to-last section of the paper, a summary is provided of interviews conducted with several people identified as having knowledge of and interest in charter district funding. Finally, a series of recommendations are made about funding charter districts, from both a state and a local perspective.

To begin, "charter school" and "charter district" are defined. Charter schools are nonsectarian public schools of choice that enter into detailed contracts with a variety of groups, including school districts and state agencies. These contracts define the school's mission and goals, the types of students it will serve, the methods of assessment that will be used, the ways in which success will be measured and the budgeting process. These contracts free charter schools of many of the regulations and rules that traditional public schools must follow. Usually, a charter is granted for a three- to five-year period and can be revoked at any time if the school fails to meet the terms of the contract. In exchange for increased autonomy, charter schools face rigorous accountability standards, both educationally and managerially.

A charter district is a public school district in which all schools are charter schools and for which the district is the authorizer. In the case of an existing district that converts to a charter district, the district is managed by a public board, receives state aid using whatever procedure applies to all school districts, obtains local tax support, and is responsible for the allocation of resources to all schools under its jurisdiction. In the case of a newly created charter district, some of these attributes may or may not apply; for example, the district may or may not be managed

by a public board and may or may not obtain local tax support. Also, a charter district may be evolutionary; that is, some of its schools may be charter schools while others are not, although it is expected that eventually all schools will be operated autonomously under the general oversight of the district.

General School Finance Issues

School finance is an important policy issue in this country for several reasons. First, public education is a large enterprise as exemplified by the following characteristics:[1]

- A total of 47.7 million students (projected for the 2003-04 school year) are enrolled in 92,000 schools in 14,900 school districts.
- A total of 3.1 million teachers, paid an average of $42,900 (for the 2000-01 school year) excluding benefits, and about 2.6 million other people, including administrators, teacher aides, janitors, school bus drivers and food service workers, are employed by the public schools.
- Public schools spent about $334 billion for current operations and $53 billion for capital purposes in the 2000-01 school year, about 4.2% of the nation's Gross Domestic Product (GDP) and about 5.9% of disposable personal income.
- The vast majority of revenues that support public education are derived from states and local school districts (48.7% came from states, 41.7% came from localities and less than 10% came from the federal government or private support in the 1998-99 school year). Across the states, public school support represents 25-40% of state general fund budgets.

Second, the allocation of state aid to school districts is one of the most politically charged issues states deal with on an annual basis. The formulas used to allocate state aid, designed to be sensitive to the varying needs of school districts, as well as to the widely different levels of local wealth, are considered to be some of the most complicated aspects of state government.

Third, state aid allocation procedures have been the subject of intense scrutiny by courts in almost every state, as state constitutions contain education clauses that provide some guidance about the appropriate role that states should play in distributing state aid and controlling local property taxes.

Finally, as both states and the federal government raise expectations for student performance and set standards by which to hold schools and school districts accountable, funding is of even greater importance.

The primary objectives of school finance systems are to:

- Guarantee a high level of equity for students and taxpayers
- Assure adequate revenues are available in all school districts
- Promote "local control" consistent with state culture
- Provide incentives for school districts to operate efficiently.

These objectives are easier to discuss than they are to measure, and even conversations about them become difficult since precise, universally accepted definitions of equity, adequacy, local control and efficiency do not exist. In some states, school finance litigation has clarified what some of these concepts mean, although a court decision does not always eliminate dispute about how to measure whether any of the objectives are being met.

Equity in regard to school funding has received attention for a long time. In the broadest sense, equity requires that the distribution of state support to school districts be sensitive to both the varying needs that school districts have and the wide variation in the ability of districts to meet those needs. Any number of factors beyond the control of school districts might cause one district to need more revenue than another, including the characteristics of the students served (such as students in special education programs, students at risk of failing in school and students with language problems) and the characteristics of school districts themselves (such as enrollment level, enrollment change over time and regional price differences).

States differ widely in terms of both the characteristics they recognize as causing costs to vary legitimately across school districts and the magnitudes of the factors they use to measure cost implications (for example, some states provide added support for students from low-income families, which may range from less than 25% of basic costs to well over half of basic costs). As for measuring the ability of school districts to pay a fair share of their fiscal needs (in terms of both district versus state share, and the relative share of one district versus another district), there are significant differences across the states that have enormous implications for local tax effort.

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While most states determine fiscal capacity by examining the assessed value of property in relation to the number of students served in each district, there are differences among the states in the way they value property (some states assess property at full value, while others assess at a small fraction of full value); the use of income in measuring wealth (most states do not include income when measuring the wealth of school districts, but some do); and the approaches used to count students (some count students using membership, while others use attendance; some states require daily student counts, while others require student counts only once a year).

Perhaps most important to any discussion of school finance equity is the underlying philosophy states use to define equity. In some states, there is an agreement that the per-student current operating revenues/expenditures of school districts should not be allowed to vary by more than a specified amount unless differences are justified by variations in the fiscal needs of the districts. In other states, as long as all districts are able to reach a specific revenue level, revenues generated beyond that point can vary as much as the wealth of school districts and taxpayer willingness allow. In the end, it becomes difficult to compare states in terms of equity because of philosophical and technical differences in how they define and measure the concept. Nonetheless, within states, it is fairly easy to measure the equity of the system once the state's philosophy and its technical approach to measuring the needs of school districts are known.

In many ways, school finance adequacy is even more difficult to measure than equity. In part this is because adequacy is a "moving target," one that changes every year as state accountability systems change and as uncontrollable cost components of education change (for example, over time, states have moved from requiring districts to meet certain "input" standards, such as pupil-teacher ratios to expecting them to meet certain "outcome" standards, such as those associated with student performance on statewide tests; also, certain costs, such as personnel health benefits, have been increasing very rapidly). Up until recently, the only way to measure adequacy was on the basis of comparison – the revenue/expenditures of one district compared to those of another, or the revenue/expenditures of districts at one point in time compared to levels at another point in time.

In the last decade, it has become possible to think differently about adequacy because states and the federal government have gotten very specific about their expectations for students, schools and school districts, and have moved in the direction of holding these individuals and entities accountable for meeting those expectations. States have abandoned resource-based requirements – most of which were expressed as minimum course offerings, pupil-teacher ratios or teacher salary levels – and adopted standards-based requirements that carry consequences when school districts and schools do not make appropriate improvement toward meeting standards. This implies that states should ensure all school districts, and perhaps all schools, have sufficient revenues to meet state expectations.

To the extent that states know how much it costs a student with no special needs to meet state standards (as well as how much it costs students with different characteristics to meet those standards), they can use such information in state school finance systems rather than making political decisions about levels of funding that more often than not reflect available revenue. In the end, adequacy means that revenues from all sources are sufficient to meet the fiscal needs of school districts with particular characteristics serving students with particular characteristics. In some sense, at exactly that revenue level, equity and adequacy are the same; it is only below that level that adequacy is an issue, and above and below that level that equity may become an issue.

Local control has long been a hallmark of public education in the United States. It reflects the evolution of public schools from essentially being private facilities funded by individuals, to being local governmental jurisdictions funded by local taxes and, finally, to being entities to which states delegate the authority to provide services funded by state and local taxes. Some people think of local control as giving local school boards the right to generate as much revenue as they want and to spend such revenue in whatever way they please. Most people recognize that the behavior of school districts is controlled by the state – states determine which taxes can be accessed, how much revenue can be generated, what services must be provided and how such services can be organized.

There was a time when some states specified the way education services were to be provided in minute detail, reflecting a concern that some school districts, left to their own devices, might not offer services in a reasonable way. But recently, consistent with the advent of standards-based reform, states have moved away from regulating education "inputs" (time, employees, space and so on) under

the theory that school districts should be free, for the most part, to organize services in whatever manner suits their needs provided they meet state "outcome" expectations.

Also, as a result of both school finance litigation and a popular desire to reduce reliance on local property taxes, some states have restricted local choice about how much revenue a district can obtain even if local taxpayers are willing to impose higher levies. As a result, state control over how much revenue can be generated locally has increased, while state control over how to spend whatever revenue is generated has been reduced.

Less is known about how to promote efficiency in school finance than is known about equity, adequacy or local control. Given the difficulty of understanding the precise relationship between education inputs and outputs (as reflected by the debate that has raged for nearly 40 years regarding how to interpret the results of statistical studies of the correlation between the two), it should come as no surprise that the nation's school districts are essentially uncontrolled experiments in how best to deliver education services successfully or efficiently.

That has not stopped critics from suggesting too much money is spent on administration or too little money gets to the classroom, despite little evidence either of these is true. Even when analysis suggests a particular district, or group of districts, manages to produce more units of student performance per unit-of resources, it has proven difficult to obtain similar results in other districts. Some analysts are promoting the idea that efficiency can be measured by the expenditure per unit of performance on a statewide test or by the change in expenditure associated with each unit of improvement on a statewide test. At a minimum, though, such calculations must control for student or family characteristics and regional price variations to be of any value.

Implications of General School Finance Issues for Charter Districts

First, charter schools and charter districts obtain revenues from the same sources as other public schools: state-determined allocations of state tax revenue, local taxes, federal funds and miscellaneous funds, including interest, fees and contributions. While individual charter schools have no tax authority, and therefore receive an allocation of state and local funds based on state requirements and local decisions to supplement whatever funds are otherwise provided, conversion charter districts have the ability to collect local taxes (assuming that the district is a geographic entity and not a collection of schools dispersed geographically).

A conversion charter district with tax authority comes under the same controls and constraints that apply to any other school district in terms of determining the wealth of the district, specifying the tax base against which local taxes can be levied and obtaining voter approval of tax levies, if needed. A real advantage to a conversion charter district – compared to an individual charter school that is not a district – is that it has the ability to generate local tax dollars for capital purposes, which allows it to sell long-term bonds to generate funds to construct facilities.

Second, charter schools and charter districts have fiscal needs just like traditional schools and school districts do. Those needs could be measured in the same way that the needs of traditional schools and school districts are evaluated. There may be, however, characteristics of charter schools/districts that specifically affect their needs, but are not used to calculate the needs of traditional schools/districts.

For example, if all school districts in a state are organized as K-12 districts, the assumption is typically made that the distribution of students across elementary, middle and high schools is similar across districts, which alleviates the need to identify cost factors associated with those levels. (Some states with separate elementary and secondary districts have cost factors that reflect the expenditure differences between schools that serve different grades.) If charter schools/districts do not serve all grades, their costs may be different from average district costs because the cost of serving students in various grade configurations are different. Therefore, a state system of determining the needs of school districts needs to be modified if it is not sensitive to grade configuration.

Another example of this sort arises if a state system for determining the needs of school districts does not consider gifted/talented students or students at risk of failing in school (perhaps because it is assumed that districts have the same proportions of students with those needs). Such a system has to be modified to properly determine the needs of charter schools or

charter districts that were specifically designed to serve certain students, since the costs of such entities are likely to be relatively high in comparison to traditional school districts.

School or district enrollment level provides another illustration of the point. It is generally recognized that very small schools and districts have higher operating costs per student, and some states have developed procedures for taking size into consideration when determining the relative needs of school districts. If charter schools or districts are relatively small, their relatively higher fiscal needs should be taken into account. Of course, this concept of calculating the needs of education institutions cuts both ways in that charter schools and districts might be comparatively more or less costly than other schools and districts depending on the characteristics of the students being served and the characteristics of the schools and districts in which they are served.

The concept of measuring needs, which arises out of traditional concerns about equity and adequacy in school finance, can be extended to the procedures districts use to allocate funds to individual schools. While most states do not require districts to develop such procedures, many school districts, particularly large ones, have chosen to do so. School districts that use formulas for resource allocation typically focus on staffing ratios since salaries and benefits account for the vast majority of education expenditures.

School districts, however, may permit significant differences in per-student expenditures among schools because the average salary levels of staff may differ, particularly when staff with higher or lower levels of education and experience are concentrated in particular schools. Charter districts are unlikely to control the number of people or the background of people employed by individual schools or the procedures used to pay people or the salary levels paid in individual schools. Therefore, it is important charter districts have reasonable ways to allocate funds to individual schools based on their needs rather than driven by factors that schools control.

Third, charter districts embrace local control at a different level than exists in most non-charter districts, although this may raise some interesting fiscal issues (leaving aside whether stronger parental or teacher control of charter schools is the same as public control in terms of taxpayers, voters or all citizens). Charter districts still need to abide by the same restrictions on taxing and spending that affect non-charter school districts; a situation cannot be conceived in which being designated as a charter district removes statutory or constitutional restrictions on school funding of the sort embodied in Proposition 13 in California, Measure 5 in Oregon or the Taxpayer's Bill of Rights (TABOR) in Colorado.[2]

Like many existing charter schools, a charter district – or individual charter schools within a charter district – will likely generate funds from individual contributors, foundations, corporations or others that might rise to a level that has an impact on interdistrict or intradistrict equity. (In general, such funds, even from school district foundations, are typically so small in non-charter districts that they are not significant.) Once such funds reach 5-10% of operating revenues, which might be $200-$500 per student, they might raise questions about equity and/or adequacy, particularly in states with restrictions on local tax revenue (such as Colorado, Kansas and Kentucky).

Fourth, a controversial issue that arises in allocating state support to school districts is how students are counted. Since most state aid formulas are student based (that is, the parameters that drive the allocation of funds, such as the foundation level, are expressed in per-student terms), states audit student enrollment or attendance to ensure districts count students properly as a basis for payment. (Some states have multiple ways of counting students, one of which is for funding purposes.) Charter schools might choose to serve students in ways that do not allow them to be counted fully for state-aid purposes because, for example, students do not attend school for a certain number of hours each day.

Some states use membership as the basis of the student count, while others use those actually in attendance. Some count every day of the year, while others count for a few days or even one day, each year. And some track students on a full-time-equivalent (FTE) basis to provide more support for that part of the day (or week or year) students are engaged in comparatively high-cost activities that are recognized by the state-aid system. Charter districts will have the same problem as individual charter schools with this issue.

Finally, there is the issue of federal support. Even though federal support is a small component of school revenue, it is a valuable source of funds at the margin for all students, and a critical source of funds for students with special needs. The vast majority of federal funds are driven by the number of students with particular characteristics (based on family income or participation in a special program), although some may be linked to calculations that compare schools within districts. The charter district

concept should theoretically improve the ease with which charter schools obtain federal support because data-collection procedures will be uniform, application processes can be coordinated and the relationships between individual schools and the district should be clear.

Charter School Funding: What Do We Know?

There is no literature about charter district funding. Since there is literature about charter school funding, though, some key fiscal issues faced by charter schools and presumably charter districts can be identified. In reviewing the literature on charter school financing, several common topics arose:

- Counting pupils
- Negotiations
- Funding levels
- Access to federal funds
- Ability to raise additional revenues
- Start-up costs
- Facilities
- Attracting and retaining personnel
- Charter school spending.

Counting Pupils

One major concern cited in several charter school studies is how to count pupils for funding purposes.[3] For the most part, charter schools use the same funding mechanism – per-pupil funding – as traditional public schools. The methodology for allocating money to charter schools, however, differs from state to state. In many states, a foundation program sets an appropriate amount of money per pupil that needs to be allocated to school districts. This money is then transferred to the school districts, where additional local monies may be added. The school district then allocates this money to the schools based on some indicator of student population, such as average daily membership (ADM) or average daily attendance (ADA). Most states use ADM as the primary method of counting students, but some states, such as California and Texas, use ADA.

Counting pupils for the purpose of funding charter schools is much more complicated than the above description for several reasons. First, charter schools can act as their own local education agency (LEA) and be funded directly by the state, thereby eliminating any interaction with their local school districts. Second, since charter schools often attract more poor and at-risk students, they are likely to receive fewer dollars than traditional public schools due to higher absenteeism rates for these students.[4] There also are numerous charter schools seeking to educate students using distance-learning and home-bound programs. The question then arises – how do you count those students? Some believe that neither ADM nor ADA sufficiently addresses these issues. Instead, some other method of counting students should be developed.[5]

Negotiations

Charter schools in some states, such as California, Colorado and Illinois, have the ability to negotiate with their authorizers – most often a school district – for funding.[6] This allows some school district flexibility in determining how to assist charter schools with high-cost programs for students who are at risk of failure, have special needs or are English language learners. Generally, the negotiations also tend to assist charter schools with providing transportation to students. It is important to note, however, that allowing school districts to have discretion over charter school funding can lead to the underfunding of charter schools.[7] In fact, charter school operators who negotiate with school districts for funds cite this issue as a serious concern.[8]

Funding Levels

In some states, charter schools receive less than 100% of the total revenue per pupil that is normally allocated for traditional public schools.[9] This may be because charter authorizers – usually a school district, university or another entity – keep a small percentage of the money to pay for oversight of the charter school. These oversight costs include reviewing the charter and monitoring the school to ensure compliance with its charter, state and federal laws.

According to a study, the median charter school in Pennsylvania received about 81% of its total revenues from its authorizer.[10] In Colorado, charter schools negotiate with their host district for an amount "no less than 95% of the district per-pupil revenues multiplied by the number of charter school students." The average rate of funding for charter schools in Colorado is about 95.2% of districts' per-pupil revenues.[11]

A recent report by the American Federation of Teachers (AFT) points out that charter schools often receive less allocated total per-pupil revenue than traditional public schools, which creates a revenue gap between charter schools and traditional public schools, and insufficiently funds charter schools to

accomplish their defined mission.[12] The report also states, however, that charter schools do not offer a broad range of programs and services, and tend to serve a homogeneous student population, which the report suggests may result in charter schools having to spend less money.[13]

According to a report released by the Texas Public Policy Foundation, state revenue going to 142 charters averaged $5,175 per pupil in Texas. This is significantly higher than the state average allocation for traditional public schools, which was $3,772 per pupil. Charter schools in Texas, however, receive no local property tax funding. When the total public revenue allocation is compared (state plus federal plus local funds), charter schools averaged about $5,564, while traditional public schools had about $7,135 per pupil.[14]

Access to Federal Funds

Like traditional public schools, charter schools can receive additional revenues from the federal government, including Title I of the Elementary and Secondary Education Act that targets students at risk of failure and the Individuals with Disabilities Education Act that targets students with disabilities.

According to several studies, however, some charter school operators have found that obtaining federal assistance is a difficult task.[15] According to a study of Arizona charter schools, charter school operators reported that applying for federal assistance was time consuming.[16] Charter school operators cite the immense bureaucracy that must be faced to receive assistance as a factor that encourages some operators to avoid applying for such funds and, in some cases, not enrolling particular student populations.[17] Regardless of these claims, in a survey conducted by the Government Accounting Office (GAO), more than two-thirds of all charter schools indicated they received an equitable amount of federal dollars, which GAO believes may contradict the claim that charter schools do not receive an appropriate share of these dollars.[18]

Ability To Raise Additional Revenues

Private businesses and nonprofit groups are another source of additional funds for charter schools. In Texas and Massachusetts, private resources account for about 3% of the average charter school's budget.[19] Determining the magnitude and effect of these additional resources, however, is extremely difficult because not all states require charter schools to report all additional funds or resources received. Almost all charter school operators believe that opportunities to obtain funding from private businesses are essential to their fiscal viability.[20]

Start-Up Costs

A recent study found that insufficient start-up funds and inadequate facilities are two of the most frequently cited obstacles that charter school operators encounter.[21] A charter school needs start-up funds to plan and organize the newly created school, find a facility, hire staff, and purchase equipment and instructional materials.[22] In Kansas City, Missouri, lack of start-up funds was cited as "very much a problem" by nearly half of charter school principals.[23]

Even with assistance from the U.S. Department of Education, which has start-up funds available through the Public Charter Schools Program, current charter schools, as well as potential charter school operators, are struggling to finance the costs of starting a charter school. Some states, including Arizona, California, Colorado, Georgia, Minnesota and Pennsylvania, have chosen to assist charter schools with start-up costs by specifying state funds for these purposes. Even with the availability of some federal and state assistance, however, start-up funding may be inadequate.[24]

Facilities

The second most-significant impediment to the viability of charter schools, as identified by charter school operators, is facilities.[25] Although some charter schools are able to find space to lease at a fairly low cost, locating and paying for adequate facilities is a problem faced by almost all charter schools. In fact, according to WestEd, many charter schools do not have access to local district funds that have been levied for capital purposes and therefore must use a portion of their operating budget to fund facilities.[26] Sometimes, this can be at least 20% or more of the core budget.[27] In Michigan, however, no more than 5% of the operating budget can be used for capital expenses.[28] Therefore, charter schools must seek facilities funding from private or nonprofit organizations.

Several states have passed legislation to assist charter schools with capital funding. Florida provides a per-pupil payment on an annual basis to charter schools for their facilities costs in the amount of $835, $957.40 and $1,266.93 for elementary, middle and high schools, respectively. In addition, in California, Proposition 39 addresses the issue by requiring that chartering bodies provide adequate facilities, or monies for a facility, to the charter school.[29] Colorado also has allocated additional funds for charter school facilities, which are provid-

ed to qualified charter schools in the amount of $332.40 per pupil.

Attracting and Retaining Personnel

Another major concern cited by charter school operators is attracting and retaining qualified personnel. In this context, two personnel issues faced by charter schools are lower average teacher salaries resulting from employing younger, less-experienced teachers and less-certified staff. A study that looked at charter schools in Pennsylvania found that charter school teacher salaries were on average $30,048, in comparison to traditional public school teachers' salaries that were on average $48,457. The study acknowledges that the gap is due to the difference in experience, as charter school teachers tend to have fewer years of experience.[30] A study of charter schools in Texas also demonstrated that the lower overall salaries in charter schools reflected the relative inexperience of charter school teachers.[31] In California, however, the average starting salary for teachers in charter schools was competitive with traditional public schools.[32]

A U.S. Department of Education study found that charter school teachers are less likely to be certified than their peers in district-operated public schools.[33] In addition to this report, the recent AFT report found that, except in California, charter school teachers have one-third to one-half the experience and are considerably less likely to have advanced degrees than traditional public school teachers.[34] Two other studies, however, one by SRI International and the other by the Evaluation Center at Western Michigan University, respectively noted that charter schools in California had about 71% of their employees certified while nearly 75% of charter school teachers in Pennsylvania were certified.[35] This is a complicated issue as many charter laws do not require certified teachers. Nevertheless, it does provide an opportunity for comparison to traditional public schools.

Charter School Spending

Several studies show that, on average, charter schools spend proportionally more money on central administration than other public schools.[36] It is important to note, however, that how charter schools spend their money varies greatly from state to state. Some states include the burden of facilities in their administrative budgets. In Michigan, the proportion of funding spent on administration was 25% compared to 11% in surrounding school districts.[37] In Texas, central administration costs in charter schools were 13% of revenues.[38] One study found that charter schools in Pennsylvania spend about 38% of their total budget on "support services," which include rent and facilities maintenance,[39] compared to 32% in host districts and 33% for all Pennsylvania public schools.[40]

Furthermore, the AFT study found that the average charter school employed two to four times as many administrators per 100 students as host school districts employed.[41] Without the economies of scale that benefit many school districts, charter schools inevitably are going to spend more on administration than their host districts.[42]

A Summary of the Interviews

In addition to reviewing the literature on charter school finance, phone interviews were conducted with a variety of individuals involved with the charter school movement. Each interviewee was asked about a series of issues related to fiscal concerns in a charter district. Almost every interviewee agreed on the following:

- Allocating dollars on a per-pupil basis is logical.
- Adjustments for different types of students, such as special education and at risk, and different types of services are necessary.
- Flexibility and autonomy at the school level is very important in terms of how funds are spent.
- Charter schools within a charter district should be able to create their own salary schedule and recruit their own personnel.
- Non-instructional services can be offered at the district level, and a charter school operator can choose to purchase any or all offered services, such as payroll or personnel.
- Charter schools within a charter district should be allowed to raise additional funds for their school from private businesses, foundations or nonprofit groups – and there is little reason to be concerned with any inequities this may create in the school district.
- Oversight is an important component of a charter district, but it should only cost about 1-3% of total revenue given to the schools.
- Capital and facility issues now faced by individual charter schools may be alleviated if a charter district has taxing authority.
- Accessing federal assistance should be easier if the charter district organizes this effort for the individual charter school operators.

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Recommended Options for Funding Charter Districts

There are a number of specific issues that should be addressed to ensure the funding of charter districts fulfills the objectives of sound school finance policy, while serving the needs of the schools in charter districts. These issues vary to some extent based on whether the charter district is a conversion district or a newly created district.

Below, a number of options are recommended for funding charter districts that apply to both conversion and newly created districts, and identify some of the specific issues that arise for newly created districts. In general, the recommended options discuss issues that affect all public schools and do not suggest that charter districts should be treated differently from other school districts. In fact, the creation of a charter district might alleviate some of the funding problems that have been associated with individual charter schools. The recommended options are divided into two levels – state and local – because when it comes to funding issues, that is a typical way to think about fiscal policies.

State-Level Issues

1. States should carefully calculate the needs of all school districts – both regular districts and charter districts – and use that information as the basis for distributing operating support to all school districts in the state. One of the best ways to ensure charter districts receive the funds they need is for states to recognize the uncontrollable cost pressures all school districts face. The state's calculation of need should reflect the impact of major factors that have cost implications, including the characteristics of students who are served (such as family income), programs that are offered (such as special education) and the districts themselves (particularly size and regional cost of living). Need also should be based on the cost of meeting state "input" and outcome expectations (including district accreditation requirements and statewide test performance), particularly those elements included in the state's accountability system.

2. States should calculate the wealth of almost all school districts, including regular districts and conversion charter districts, in the same way. That is, once the needs of districts are known, state aid should, in most cases, be "equalized" so that the wealth of districts is taken into consideration (for two districts with equal needs, more state aid would be allocated to the district with lower wealth). There is nothing new about this recommendation – states have spent the last 35 years improving the ways they equalize state support.

3. Conversion charter districts should be required to make a contribution of local taxes at the same level as non-charter districts based on a state-required local tax rate or the relative wealth of the district. Conversion charter districts should be subject to the same requirements that apply to non-charter districts in terms of their ability to generate tax revenues above the required level.

4. It should be noted that the case of a newly created charter district poses a problem that must be addressed since such a district has no "wealth" (in terms of property or income) that can be tapped to pay for the district's needs. Under such circumstances, there are two choices: (1) the state may require local funds provided in each district in which a charter school is located to flow to the charter district of which the school is a part or (2) the state may pay the full cost of the charter district without expecting any local contribution.

   The second choice is the preferable option to avoid a situation under which numerous charter schools, located in several different school districts, generate different amounts of local funding, which may lead to a state allocating aid to individual charter schools rather than to the charter district. Choosing the second approach, the state, in effect, reduces local property taxes in the district in which an individual charter school is located, so local taxpayers do not need to be taxed locally to pay for students who attend schools controlled by an entity located outside of the district. In fact, the state may choose to create a statewide property tax for all charter districts, which allows a form of "local" contribution to be generated to support students in charter districts.

5. States should count students attending charter districts on the basis of membership and do so at least one day each month on a random basis (called "random monthly membership"), where random simply means the date is not scheduled far in advance, but rather is a different day each month specified no more than a day or two ahead of time. Regardless if they are in school at the time, students should be counted if served by a charter district – that is, if they

are enrolled in a program designed to achieve one year of academic progress in all areas covered by the state accountability system. Theoretically, this pupil count can be applied to all school districts in a state to avoid any district feeling that it might receive relatively less state aid due to differences in the number of pupils being served.

6. States should reward any school district that meets or exceeds state expectations through recognition or financial incentives, and the state should intervene in school districts that fail to meet state expectations. Rewards and interventions should apply to all school districts, including charter districts (even if the performance goals set for them are different from other districts).

7. States should provide funds for capital purposes. Whatever procedure is used to support capital outlay and debt-service expenditures in non-charter districts should apply to charter districts as well. States vary in the ways they allocate capital support, from providing grants based on enrollment to reimbursing districts for a proportion of their expenditures to providing loans, and nothing about this recommendation is designed to suggest that states do something different for charter districts than they do for non-charter districts. The advantage of the charter district concept is that it permits an existing school district that converts to a charter district to generate local funds through the usual bonding procedures or other mechanisms that rely on the tax-based revenue-raising capacity of the district (assuming that charter districts are governed in the same way that non-charter districts are).

8. In the case of newly created charter districts, the state should provide capital support in the same way it allocates support for a regular district, based on an amount per student, a proportion of annualized cost or a loan. A problem arises with the local share of capital costs in a newly created district since, as discussed above, the newly created charter district has no property value and it makes little sense to expect the district in which a charter school is located to pay for construction costs associated with a building overseen by an out-of-district entity. In this case, the state may institute a statewide property tax for charter school construction, at least for charter schools that are part of newly created charter districts. The tax rate needs to be set in such a way as to collect a specified amount of revenue that should be determined by a statewide commission or a subcommittee of a statewide school construction commission if the state already has such an entity.

Local Issues

1. Many states have requirements of one sort or another about how funds should be spent by school districts, including pupil-teacher ratios, teacher salary levels, minimum proportions of spending for instruction, limits on spending for administration and so on. At the same time, most states do not require that resources (such as money or people) be distributed among schools in a particular way. The assumption is that state-determined spending requirements would not apply to charter districts with one possible exception – a state might set a minimum salary level for certified teachers that can apply to charter districts.

   Charter districts will need to allocate money to individual schools in the district. Based on what is known, somewhere between 1% and 5% of the district's current revenue (excluding capital funds) should be reserved for district administration. In addition, the district may choose to offer non-academic services, such as transportation, accounting, human resources or plant maintenance and operation, that may be purchased by any or all charter schools in the district. In fact, the district may offer certain academic services, including professional development, an alternative high school, special education services or services that support English language learners/limited English proficient (LEP) students, which also may be purchased by schools in much the same way that such services are provided to school districts by regional service centers.

   A charter district's allocation of funds to individual schools is particularly important in a district in transition from a traditional district to a charter district. After the 1-5% of revenue is removed for district administration, the district should distribute the remaining funds to schools based on a calculation of their needs using a procedure not unlike the one described for allocating state support to school districts. That is, the procedure should be based on characteristics of the students being served, the programs being offered (broadly speaking, including elementary versus high school, or pro-

grams for students with no special needs versus programs for LEP or at-risk students) and the schools themselves (which might include size and, for newly created charter districts, regional cost of living). In essence, this assessment of need is not undertaken in an absolute sense, but rather in a relative sense. An absolute sense assumes that all the money is in place to fully fund calculated needs, while a relative sense allows whatever funds are available to be distributed proportional to each school's needs.

2. Individual schools should have complete flexibility in regard to hiring personnel, including the number of people they choose to employ, the qualifications of those people and the salaries/benefits paid to them (other than meeting a state minimum salary for certificated staff, as described above, should one exist).

3. The assumption is that existing districts that convert to charter districts have the same capability to generate local tax revenue as any other school district. All school districts, including charter districts, are required to follow the same procedures in collecting local taxes, including any requirements about voting procedure, tax rate or revenue limitations and so on. In addition, charter districts must use the same procedures as other districts in seeking voter approval to use local taxes for school construction.
4. A recommendation is that charter districts place a reasonable limit on the amount of non-tax revenue that individual schools can generate for operating expenses. While this flies in the face of the entrepreneurial spirit of charter schools, it is an important step to take to avoid the perception inside or outside of the charter district that fiscal equity has no value. This is particularly important in states that are addressing interdistrict fiscal inequity by restricting local tax revenue, even if such restrictions do not apply to nontax revenue. One way to do this is by limiting self-generated school revenue to a fixed percentage (somewhere between 10% and 50%) of the calculated need of each school.

5. Charter districts should adhere to any state requirements concerning fund balances, independent audits, deficit funding and so on. Charter districts should receive a limited amount of state aid to facilitate initial planning (for two to five years, particularly if the district has multiple schools and is in transition) and such funding be about 5% of the calculated need of the district (as used to allocate state aid). If state aid should not be provided, charter districts could borrow funds for planning purposes, up to the same level.

Conclusion

The charter district concept takes several forms, such as an existing district that converts every school to a charter school or a newly created charter district that manages numerous charter schools dispersed geographically. Given the novelty of the concept, school districts with more than a few schools would likely require some time to transition from including charter and non-charter schools to only charter schools.

Charter districts certainly can be funded in a way consistent with the traditional objectives of a strong school finance system that provides an adequate level of funding, equitably distributes state support and local tax burdens, allows for local control over how much revenue is generated and how funds are spent, and promotes an efficient use of resources. In addition, the concept of a charter district might alleviate many of the concerns and issues currently faced by charter schools that operate within the confines of a traditional district. After speaking with numerous individuals who either worked in charter districts or had extensive knowledge of the charter school movement, that it is possible to design a strong charter district funding system, although there are some situations involving newly created charter districts that have important implications for the funding of public schools in the future since such districts have no local tax base that can be used to generate local revenues.

States that support the concept of charter schools and charter districts need to modify their school funding systems to accommodate these new institutions seamlessly. In fact, some of the recommendations to ensure appropriate funding for charter districts can strengthen the funding of all public schools. In the end, funding is a tool that facilitates the operation of strong, successful education programs, while ensuring an equitable distribution of the tax burdens needed to generate needed revenues. Charter districts deserve neither more nor less funding than any other school district based on the needs of the districts and their ability to provide support.

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Endnotes

[1] See Thomas Snyder and Charlene Hoffman (2001), *Digest of Education Statistics, 2001*, Washington, DC: U.S. Department of Education, National Center for Education Statistics, Tables 40, 77, 161 and 158.

[2] Proposition 13 in California, Measure 5 in Oregon and TABOR in Colorado are examples of state actions taken over the past 25 years to limit public spending directly or indirectly by constraining property assessments, property or other tax revenue, and/or property or other tax rates. Such procedures are particularly onerous for school districts, which rely heavily on property taxes. Even when states step in to replace lost property tax revenues, increases in state aid may not fully make up for revenue losses, which may not permit school district expenditures to maintain pace with changes in enrollment or inflation.

[3] Stephen Sugarman, (2002, August 9), "Charter School Funding Issues," *Education Policy Analysis Archives*, vol. 10, no. 34, Tempe, AZ: Arizona State University; National Charter School Finance Study (2000), *Venturesome Capital: State Charter School Finance Systems*, Washington, DC: U.S. Department of Education; and the League of Women Voters of Michigan (1998) *The Charter School Study, 1998*, Lansing, MI: League of Women Voters of Michigan.

[4] National Charter School Finance Study (2000), *Venturesome Capital: State Charter School Finance Systems*, p. 37.

[5] Sugarman.

[6] American Federation of Teachers (AFT) (2002), *Do Charter Schools Measure Up? The Charter School Experiment After 10 Years*, Washington, DC: AFT, p. 34.

[7] Id.

[8] Id.

[9] www.uscharterschools.org, *Budget, Finance and Fundraising*, retrieved from the World Wide Web March 26, 2003: www.uscharterschools.org/pub/uscs_docs/ta/budget.htm.

[10] Gary Miron and Christopher Nelson (2000, October), *Autonomy in Exchange for Accountability: An Initial Study of Pennsylvania Charter Schools*, Kalamazoo, MI: Western Michigan University, p. 51.

[11] Colorado Department of Education (CDE) (2002, April), *The State of Charter Schools in Colorado 2000-2001: The Characteristics, Status and Performance Record of Colorado Charter Schools*, Denver, CO: CDE.

[12] See AFT report, note 8, p. 43.

[13] Id.

[14] Texas Public Policy Foundation (2001), *Navigating Newly Chartered Waters: An Analysis of Texas Charter School Performance*, San Antonio, TX: Texas Public Policy Foundation, p. 4.

[15] See Sugarman; National Charter School Finance Study; and Arizona Department of Education (2000, November), *Five Year Charter School Study*, Tucson, AZ: Arizona Department of Education.

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[17] See Sugarman; and National Charter School Finance Study.

[18] General Accounting Office (GAO) (1998b), *Charter Schools: Recent Experiences in Accessing Federal Funds*, Washington, DC: GAO.

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[20] www.uscharterschools.org.

[21] RPP International (2001, June), *The Impact of Charter Schools on School Districts: A Report of the National Study of Charter Schools*, Washington, DC: U.S. Department of Education.

[22] SRI International (2002, November), *A Decade of Public Charter Schools: Evaluation of the Public Charter Schools Program, 2000-2001 Evaluation Report*, Washington, DC: U.S. Department of Education, p. 53-55.

[23] Missouri Department of Elementary and Secondary Education (2001, July), *Charter School Performance Study: Kansas City Charter Schools*, Jefferson City, MO: Missouri Department of Elementary and Secondary Education, p. 24.

[24] Sugarman.

[25] RPP International.

[26] www.uscharterschools.org, *Facilities*, retrieved March 26, 2003: http://www.uscharterschools.org/pub/uscs_docs/ta/facilities.htm.

[27] Eric Premack (2000-01 Edition), *California Charter School Finance: A Guide for Charter Schools and Charter-Granting Agencies*, Sacramento, CA: Charter Schools Development Center, p. 26.

[28] League of Women Voters of Michigan, p. 16.

[29] Sugarman, p. 5-6.

[30] Miron and Nelson, p. 95.

[31] Texas Public Policy Foundation, p. 4.

[32] SRI International (1997, December), *Evaluation of Charter School Effectiveness*, Menlo Park, CA: SRI International, p. II-24.

[33] RPP International.

[34] AFT, p. 22.

[35] SRI International, *Evaluation of Charter School Effectiveness*, p. II-20; and Miron and Nelson, p. 83.

[36] See National Charter School Finance Study.

[37] Public Sector Consultants, Inc. and Maximus, Inc. (1999, February), *Michigan's Charter School Initiative: From Theory to Practice*, Lansing, MI: Michigan Department of Education, p. 80.

[38] Texas Public Policy Foundation, p. 18.

[39] Miron and Nelson, p. 56.

[40] Id.

[41] AFT, p. 38.

[42] See Texas Public Policy Foundation and AFT for a discussion on economies of scale.

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